

**Market-type mechanisms and public service equity:
A review of experiences in European public services**

Sorin Dan and Rhys Andrews

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Abstract

The introduction of market-type mechanisms into the public sector has been a feature of many of the reforms associated with the New Public Management. In seeking to benefit from the competitive pressures exerted through marketization, governments have hoped to gain improvements in public service efficiency in particular. Yet, concerns remain about the effects of marketization on how equitably public services are provided, with many suggesting that there is an inevitable trade-off between efficiency and equity that goes hand-in-hand with market-orientated reforms. In this paper, we consider evidence on what is known about the relationship between the introduction of market-type mechanisms in the European public sector and the efficiency and equity of service provision. Our analysis reveals that although market-type mechanisms sometimes result in worse service equity, there is only weak evidence of a trade-off between efficiency and equity. We go on to argue that the design and implementation of market-based reforms may be a more important determinant of their success, rather than their supposed intrinsic characteristics.

Keywords: Public management reform; market-type mechanisms; service equity; Europe

Introduction

Market-type mechanisms have been introduced into the public sector in countries all across Europe (Pollitt and Bouckaert 2011). Inspired by the dictates of the New Public Management (NPM), contracting out (outsourcing), quasi-markets, liberalization, privatization and user-choice mechanisms have all been used as a tool to drive public service improvement. These NPM reforms to the traditional bureaucratic model of service delivery within the public sector have typically had efficiency gains as their main objective, but they are also anticipated to result in improvements in service quality and organizational effectiveness (Kettl 2005). The introduction of market pressures within the system of public service production is hypothesized to facilitate the kind of innovative behaviors and customer orientation inherent in a well-functioning market for private goods and services (Osborne and Gaebler 1993). By encouraging public service organizations to consider private (or not-for-profit) provision of services, forcing them to compete for ‘customers’ and by establishing opportunities for service users to choose between alternative providers, market-type mechanisms are seen as drivers of positive change with benefits for taxpayers and service users alike (Le Grand 2006; Le Grand and Bartlett 1993). However, several observers have suggested that irrespective of the potential efficiency gains that might be realized, market-type mechanisms are inherently inimical to the equity with which public services are distributed and that this can threaten the legitimacy of the state’s role in upholding the public interest (Gilmour and Jensen 1998; Milward and Provan 2000). In this paper, we contribute to this important debate by reviewing evidence from a range of studies of the impact of market-type mechanisms on access to public services in the European public sector. A similar recent study focused on user-choice mechanisms and concluded that choice in the public sector can lead to a number of benefits but it also presents possible pitfalls policy makers and regulators need to carefully consider before introducing or expanding the range of choice in public services (Tummers, Jilke and Van de Walle 2013).

By emphasizing efficiency, it is argued, marketization inevitably lessens the importance of other public service outcomes that are conventionally regarded as being the core business of the state, especially the goal of social equity (Fredrickson 1990). Market-type mechanisms are thought to lead public services to be unresponsive to the needs of disadvantaged client groups who are difficult or hard to reach, due to the additional time and money required to adequately meet their demands and the lack of reward for actually doing so (Koning and Heinrich 2013). From this perspective, marketization is assumed to damage social equity because competitive pressures lead service providers to restrict access to public services for less-advantaged people. As a result, marketization is generally characterized in the literature as generating a conflict between the demands of public service efficiency to which it is generally directed and the social equity for which governments are held accountable (Wolf 1987). All of which is reflected in an on-going need to trade-off efficiency and equity in policy and management decisions (Okun 1975).

Academic and policy interest in marketization and social equity has grown during the past decade or so, as governments across Europe have increasingly turned to market-type mechanisms to achieve their policy objectives. A growing number of empirical studies furnish

evidence on the supposed trade-off between efficiency and equity (e.g. Amrikhanyan 2008; Amrikhanyan, Kim and Lambright 2008), so there is a pressing need to analyze the provenance of this well-worn argument, especially at a time when public sector budgets are under pressure and there are demands to seek market-based solutions to public service delivery challenges. The scale of the research effort devoting to evaluating the success of outsourcing, quasi-markets and use choice means that it is now possible to bring together the evidence on marketization and equity in search of some general lessons about the impact of market-type mechanisms. Although most of that research has focused on either the effects of marketization on efficiency or equity separately, a growing number incorporate a concern with both outcomes, making it possible to evaluate what is known about this critically important issue in public administration.

Do market-type mechanisms result in worse access to public services? Are gains in efficiency traded for reductions in public service equity? Is it possible for market-type mechanisms to generate improvements in efficiency and equity? We seek to answer these questions by carrying out a review and in-depth analysis of the available evidence on the introduction of market-type mechanisms and public service equity and efficiency in the European public sector. In the following section, we explore the rationale behind the use of market-type mechanisms in the public sector, analyzing the potential relationship between the use of outsourcing, quasi-markets and user choice on efficiency, as well as equity. Following that, we describe the process through which the studies we review were identified and how they were analyzed. Thereafter, we provide a thick description of those studies, discussing the findings in some depth, before concluding by reflecting on the theoretical and practical implications of our research.

Theory

At the heart of the introduction of market-type mechanisms in the public sector is the contention that it is necessary to impose competitive pressures on public service providers. The roots of this notion can be found in the ideas of public choice theory. For public choice theorists, government-managed provision of public services is inherently inefficient because rather than hunt out efficiencies within the public service production system, politicians and bureaucrats tend to behave in a self-interested way. Drawing on neo-classical economics, public choice theory suggests that public servants seek to maximize their budget and personal interests at the expense of the citizens they purportedly serve (Niskanen 1971). Due to the budget-maximization imperative, it is likely that publicly-managed services will be over-supplied and that efficiency, in particular, will suffer (Savas 1987). The application of market-type mechanisms such as contracting out, public choice theorists argue, is therefore necessary to avoid or minimize the dysfunctional effects of producerist self-interest. By forcing previously protected in-house services into an environment characterized by market discipline and competition amongst potential service providers, overall service delivery costs should be reduced, whilst the efficiency and quality of public service provision improved (Osborne and

Gaebler 1992). Nevertheless, it is still conceivable that marketization creates problems of its own for public service production, and that this incurs costs for social equity especially.

The impact of public choice ideas on NPM led to the privatization or deregulation of many public services (see Swann 1988), as well as sustained attempts to either establish compulsory competitive tendering processes or establish an internal market for service provision (Eliasson and Sitter 2008). Although evidence from a range of research suggests that this marketization has reduced production costs (for reviews see Andrews 2010; Domberger and Jensen 1997; c.f. Bel, Fageda and Warner 2010), it may also lead overall to a deterioration of service quality, especially due to poor contract specification, in the case of outsourcing (Knapp et al. 1999), or the lack of meaningful alternatives in the case of quasi-markets (Wolf 1987). Above all, by introducing competitive pressures and market forces into the public service production system, providers have a greater incentive to behave in ways that minimize their costs and the task difficulty that they confront. This, in turn, is generally likely to mean that those social groups who are most costly and difficult to serve receive the poorest quality services, which inevitably results in an inequitable distribution of public services.

The notion that markets may be efficient yet result in inequitable outcomes in the absence of some form of government intervention has a long pedigree within public economics (Lerner 1944). Theories of market failure, in particular, suggest that one reason for the state's existence is its capacity to ensure that all citizens are able to access public and social goods, such as education, culture and leisure, irrespective of ability to pay (Stiglitz 2000). At the same time, a key principle underpinning the Weberian rationale for public bureaucracies is that the legal-rational basis of the state requires that it treat all citizens, clients or service users in exactly the same impersonal way, both in terms of access to services and the distribution of those services (du Gay 2000). As Musgrave (1959) puts it, government performs an allocative function through which it addresses demands that could not be met through the free market, and a distributive function through which it upholds an equitable distribution of goods (Musgrave 1959).

The scope and need for government intervention in the economy and society to fulfil its allocative and distributive roles is, in theory, far-reaching, and equality of access is clearly a central feature of the justification for state provision of public services. Yet, the use of market-type mechanisms implies the re-introduction of those economic forces, which necessitated public provision in the first place, and therefore seems likely to result in sub-optimal access to services, whatever the potential productive efficiency gains that may be realized. The ways in which social equity suffers are likely to be similar across the different market-type mechanisms that can be introduced, but will also display important features distinctive to the kind of mechanism being implemented.

In terms of outsourcing, it is conventionally assumed that competitive tendering prompts potential providers to focus on improving the quality of their work, as well as reducing costs due to the fear that a failure to please public sector clients will lead to a loss of business (Savas 1987). However, skepticism about the consequences of profit maximization incentives for service quality in government contracting has grown as the use of private contractors has

increased. According to some economists, private provision of public services rarely results in desired service improvements because it is plagued by incomplete contracts (Jensen and Stonecash 2005). Due to the challenges involved in measuring the quality of public services, it is particularly difficult to fully specify contractual obligations for their provision (Hart, Shleifer and Vishny 1997), especially to less-advantaged social groups. Even where it is possible to more tightly specify performance standards within contracts, providers may still have an incentive to “game” the system in ways that are especially disadvantageous to poor or socially excluded groups through tactics, such as ‘cream-skimming’ and ‘parking’ (Koning and Heinrich 2013).

The introduction of quasi-markets within the public sector too is envisaged to be efficiency enhancing, principally because of its facility for forcing providers to compete to provide the best-quality service at the lowest cost (Le Grand 2006). Where citizens have some choice about the provider of the services they need, it is assumed that the threat of their “exit” is sufficient to keep their current provider “on their toes”. However, one prerequisite for injecting competitive pressures into the public sector through quasi-markets and choice is the existence of multiple service providers who are able to compete for ‘customers’ – an assumption that holds more strongly for some services (e.g. nursing homes), than others (e.g. high schools), and may vary due to external factors, such as population sparsity or decline. Another prerequisite for a well-functioning public sector market is the availability of clear and comparable information on the performance of different providers, which is hypothesized to lead to better services by enhancing the “voice” of service users and their awareness of “exit” options (Hirschman 1970). Although there is some evidence that citizens are responsive to performance information cues (James 2011; James and John 2007), there is little evidence to date that this dramatically improves the access to services of those who most need them.

Theoretically speaking, the prospects of marketization resulting in better social equity seem remote – incomplete contracts and market failure are simply too consistent a theme in public sector markets. Nevertheless, while the consequences of market-type mechanisms for social equity are typically regarded as negative, there are several ways in which policies characteristic of such reforms might still result in a positive equity pay-off (Harrow 2002). In particular, outsourcing, competition and choice mechanisms might improve equality of opportunity by placing greater pressure on the providers of public services to be responsive to customer demand (Le Grand 2006). Opportunities for service users from disadvantaged communities to switch provider may therefore represent a much-needed means for pressurizing public service providers to do better for those whose voice is not necessarily as strong (Hirschman 1970; Le Grand 2006). At the same time, a growth in consumerism within public services can have distributional benefits by prompting equality of access and consistency in the treatment of service users (see Pollitt 1988). Hence, it is conceivable that the conventional picture of a straight trade-off between efficiency and equity may be incorrect, or that, at the least, the relationship between efficiency and equity in the wake of marketization may require some nuancing.

To better understand the complexities of this issue, we consider experiences with market-type mechanisms in European public services. We begin with explaining how we undertook the

review, before offering a discussion of the findings and their implications for public administration theory and practice.

Case selection

In selecting cases of market-type mechanisms, we used the database of NPM studies created as part of the **[removed by the authors for review]** project. This database includes **[removed by the authors for review]** is a result of a comprehensive search for NPM literature across Europe from 1980 to 2011 **[removed by the authors for review]**. Most studies in the database are academic (68%) while the rest are official and independent evaluations, policy reports, consultancy studies and reports by international organizations.

Market-type mechanisms are only a component, though a significant one, of NPM, and only a portion of the database includes relevant data on market-type mechanisms. Furthermore, within this subcategory only a part incorporates evidence on public service equity understood to mean equal access to public services. Therefore to distill the impact of MTMs on service equity, the database was narrowed down to include only the relevant material dealing with access to public services. In selecting the specific dataset of relevant studies we followed these two steps:

1) We first filtered the database to include only the studies on market-type mechanisms. This resulted in an initial dataset of 73 studies on contracting out (14.2% of the total database), 21 items on user choice mechanisms (4.1% of the database) and 21 studies on other MTMs, which include quasi/internal markets, use of vouchers, application of user charges and liberalization and privatization reform. Altogether these represent close to one fourth of the initial database.

2) Second, the resulting dataset was further filtered to incorporate only the studies that included empirical evidence on equal access to services following the application of MTMs in European public sectors. We followed the following approach to empirical evidence. First we selected the academic sources that used quantitative and qualitative empirical evidence. Second, we selected those official evaluations and policy studies that drew upon significant empirical evidence or made an evidence-based argument about the impact of MTMs on service equity. Exceptionally, we allowed in a limited number of analytic overviews that did not introduce new original evidence but drew upon a significant body of evidence. While this approach did not allow the use of classical meta-analytical techniques, quantification of the size of effects, and the assessment of statistical significance, it enabled us to draw on more sources across different countries. Moreover, qualitative, thick-description studies have the merit of providing the opportunity to assess contextual factors and underlying mechanisms through which market tools affect equity. They not only tell whether market instruments lead to deteriorations, improvements or no change in equity but potentially they can also indicate why and how this is the case.

This selection process resulted in 20 case studies of the effect of MTMs on service equity in European public sectors. To code and synthesize the data systematically, the study used an analytical framework that identifies the type of MTMs being assessed, country and policy area, method used in each study and impact on equity. Starting from the standard premise in policy studies that equity and efficiency have different determinants and are likely to change differently as a result of the introduction of market forces, we were interested in synthesizing any evidence on efficiency, in addition to equity, available in each study. We report this in a different column, but due to the limited evidence on the technical, input-output ratio definition of efficiency, we also included evidence on savings, reduction in inputs and changes in processes (i.e. faster service). Finally, to explain variation in impacts we extracted relevant determinants of change in equity and report these in a separate column. In this way, the paper can show why a given MTM worked in a specific context and policy area but failed to work in a different context.

Description of cases

The 20 cases considered can be divided into three categories: contracting out (outsourcing), quasi-markets and other MTMs. Other MTMs include liberalization and privatization of services of general interest (two cases), user-choice mechanisms (two cases), user charges (two cases) and two cases of MTMs that do not fall into any of these categories. The dataset includes eight cases of contracting out, eight cases of other MTMs and four studies of quasi-market arrangements (Table 1).

Table 1: Number of cases by type of market-type mechanism

Type of MTM	Number of cases
Contracting out	8
Quasi-market arrangements	4
Other MTMs	8
Total	20

The cases span different regions of Europe, and include examples from Central and Eastern Europe and the former Soviet Union as well as from some of the largest western European states: UK (four cases), France (three cases), Germany (three cases) and Italy (two cases). We notice that the cases of contracting-out and quasi-market arrangements included in the study are largely concentrated in the west of Europe while the cases of other MTMs are largely derived from the new EU member states and the former Soviet Union. In terms of policy area, healthcare is by far the best represented sector with ten cases followed by employment services with four cases, and other policy areas with six cases (tables 2, 3 and 4 below).

Table 2: Distribution of cases of contracting out by country and policy area

Country	Policy area
France	Employment
France	Employment
France	Law and justice
Germany	Employment
Germany	Employment
Italy	Healthcare
Italy	Local services
Norway	Welfare

Table 3: Distribution of cases of quasi-market arrangements by country and policy area

Country	Policy area
UK	Healthcare
Germany	Healthcare
Germany and the Netherlands	Healthcare
France	Healthcare

Table 4: Distribution of cases of other MTMs by country and policy area

Country	Policy area
UK	Education, healthcare and social housing
UK	Housing
UK and Spain	Economic policy
Estonia	Healthcare
Czech Republic	Healthcare
Hungary	Healthcare
Czech Republic, Russia, Ukraine and Armenia	Healthcare
EU member states	Economic policy

In terms of type of study, most studies (14 out of 20) are academic while six are official evaluations or studies by consultancy organizations. Seven studies employed quantitative methods, six used qualitative case studies, and two each are quasi experiments, analytic overviews and mixed-method studies.

Table 5 below presents all coded data including the evidence on access, efficiency and explanatory factors.

<i>Reference</i>	<i>Market-type mechanism (MTM)</i>	<i>Country</i>	<i>Policy</i>	<i>Method</i>	<i>Impact on equity</i>	<i>Impact on efficiency</i>	<i>Explanatory factors</i>
Divay 2009	Contracting out	France	Employment	Academic multiple case study	Unchanged	No data	-Differences between the three private providers: job seekers are more satisfied with a personalized approach compared to a 'technical' one favored by the other two providers -No significant change in access to job market following contracting out
Behaghel, Crépon and Gurgand 2009	Contracting out	France	Employment	Quasi-experimental academic study	Improved	Faster registration, improved processes	-Two programs evaluated and compared focused on hard-to-place job seekers -Significant higher placement in both cases -Success factors: personalized counselling and support, good counsellor-job-seeker ratio -Financial incentives allocated may further explain greater effectiveness
Cour de Comptes 2010	Contracting out	France	Law and justice	External official evaluation	Unchanged	Improved processes	-Equal access to services, understood as results in professionalism (ethos and attitudes) and prisoner rehabilitation, did not change due to different practices in prison administration -Growth in crime rate in the external environment is said to significantly affect effectiveness
Kaps and Schütz 2007	Contracting out	Germany	Employment	Quasi-experimental external evaluation	Unchanged	Unchanged	-Demanding requirements of operation hamper efficiency gains -High transaction costs
Pfeiffer and Winterhager 2006	Contracting out	Germany	Employment	Quantitative consultancy study	Improved placement through use of vouchers	No data	- Use of vouchers for employment services is more effective than public commissioning of a third-party provider - No detailed explanation of differences

Macinati 2006	Contracting out	Italy	Healthcare	Quantitative academic study	Deteriorated	Unchanged	-Lack of strategic planning affecting reform -High transaction costs restrict efficiency gains
Italian Department of Civil Service 2005	Contracting out	Italy	Local public services	Quantitative external official evaluation	Unchanged	No data	-Need for closer monitoring and evaluation of contracting out processes as well as outputs and outcomes
Nylehn 2004	Contracting out	Norway	Welfare and social care	Academic case study	Improved	Improved savings and processes	- Better personalized care offered by private institutions - More effective financial management in private compared to public institutions
Cookson et al. 2010	Quasi-market arrangements	UK	Healthcare	Quantitative academic study	Unchanged	No data	-Strong code of ethics was found to positively affect access services -The degree of competition: a greater degree may influence norms and affect equal access
Mosebach 2009	Quasi-market arrangements	Germany	Healthcare	Academic analytic overview	Unchanged	No data	None
Götze, Cacace and Rothgang 2009	Quasi-market arrangements	Germany and the Netherlands	Healthcare	Academic multiple case study	Unchanged	No data	-Risk adjustment measures were introduced in both countries to ensure financial protection
Schweyer 2010	Quasi-market arrangements	France	Healthcare	Academic case study	Unchanged	No data	None
Public Administration Select Committee 2005	User choice mechanisms	UK	Education, healthcare and social housing	Official qualitative analytic overview	Unchanged	No data	-Choice could improve access to services if careful safeguards were designed into choice arrangements -Choice and voice are not always a priority for users -Guarantee of certain standard is needed -Design and implementation of choice scheme is critically important -Need to ensure that the voice of users and staff is considered

Atun et al. 2006	User choice mechanisms	Estonia	Healthcare	Academic mixed-methods study	Improved	Improved at healthcare system level	<ul style="list-style-type: none"> - Strong management and leadership - Good coordination between design and implementation - Early investment in training - Development of a critical mass of supporters on the ground
Krutilová 2010	User charges	Czech Republic	Healthcare	Academic quantitative study	Deteriorated for specific types of medical care	No data	<ul style="list-style-type: none"> -Use of some services decreased more than others, i.e. primary case home visits (26% drop) and use of medication (30.17% drop in 2008 and 27.65% in 2009) compared to ordinary consultations -No significant change in inpatient care due to price inelasticity -Age and gender play a role -No data on the impact on systemic efficiency
Nagyistók 2010	User charges	Hungary	Healthcare	Academic case study	Deteriorated	Improved through rationing	<ul style="list-style-type: none"> -User charges were suspended one year after introduction as a result of a referendum -Communication and implementation problems -Decreasing political support
Clifton and Díaz-Fuentes 2010	Liberalization and privatization	EU member states	Business and economic	Academic quantitative study	Unchanged for certain socio-economic groups	No data	<ul style="list-style-type: none"> - Variation across the EU, type of public utility and socio-economic characteristics of users - Lower access to services in rural compared to urban areas -Age matters for IT&C services
Clifton et al. 2010	Liberalization and privatization	Spain and UK	Business and economic	Academic quantitative study	Deteriorated for some services and socio-economic groups	No data	<ul style="list-style-type: none"> -Financial crisis seen as the major factor -Type of public utility and elasticity type -Age influences the use of IT&C -Residence: lower usage of gas and internet -Education influences internet usage
Audit Commission	MTMs more generally	UK	Housing	External evaluation	Unchanged	Improved processes	<ul style="list-style-type: none"> -Central government increased capital available for repairs and renovations

2002				using mixed methods			-Housing markets vary significantly in terms of value, economic potential and local capacity
Nemec and Kolisnichenko 2006	MTMs more generally	Czech Republic, Russia, Ukraine and Armenia	Healthcare	Academic multiple case study	Deteriorated	Deteriorated	<ul style="list-style-type: none"> - Economic situation of each country: more favorable in new EU members states than in the former Soviet Union - Introduction of user charges found to affect access to public services -Informal payments negatively affect equality of access -Lack of effective patient charters and complaints system

Mixed effects of market-type mechanisms on equity and efficiency

We first begin with the big picture and then present emerging patterns of factors that were found significant in explaining the effects of market mechanisms on public service equity across the selected cases. We see that the general picture is mixed with improvements in access to public services in some cases and deterioration or no change in other cases (Table 6 below). The greatest category is unchanged access to services (55%) followed by deteriorated (25%) and improved equality of access with 20% of the set of studies. The documented effects on efficiency are slightly more positive than those on equity with 30% of the studies finding some evidence of improvements in efficiency. This percentage includes efficiency measures in a broad sense, including improvements in processes (e.g. faster service), savings and more broadly decreases in inputs. However, 65% of the cases have either included no evidence on efficiency or found efficiency to have not changed significantly (Table 6).

Table 6: The effect of market-type mechanisms on equity and efficiency

Improved	Deteriorated	Unchanged	No data	
20%	25%	55%	0%	<i>Equity</i>
30%	5%	10%	55%	<i>Efficiency</i>

Note: Percentage of the total set of 20 cases

If we look at the change in public service equity following the application of specific types of MTMs in European public sectors, we see differences between contracting out, quasi markets and other forms of MTMs. Seven out of the eight cases of contracting out have either led to improvements in access to public services or to no change. Other MTMs (i.e. user charges, user-choice mechanisms, and liberalization and privatization), by contrast, have in four cases out of eight led to a deterioration in service access while in three cases no significant change was found (Table 7).

Table 7: The effect of market-type mechanisms on equity by type of market-type mechanism

Improved	Deteriorated	Unchanged	Total	
3	1	4	8	<i>Contracting out</i>
0	0	4	4	<i>Quasi-market arrangements</i>
1	4	3	8	<i>Other market-type mechanisms</i>

Note: The numbers refer to the number of cases

There are also differences depending on policy area. Service equity in healthcare (the largest category) deteriorated in four out of the ten healthcare studies, did not change in five cases

and improved in one case. In employment services, however, the general picture is more optimistic: half of the cases found evidence of improved access to services while the other half documented no significant change. None of these cases documented decreased service access. In other policy areas, most studies (four out of six) concluded that MTMs did not lead to a significant change in equality of access (Table 8).

Table 8: The effect of market-type mechanisms on equity by policy area

Improved	Deteriorated	Unchanged	Total	
1	4	5	10	<i>Healthcare</i>
2	0	2	4	<i>Employment</i>
1	1	4	6	<i>Other policy area</i>

Note: The numbers refer to the number of cases

Table 9 below maps the relationship between MTMs, on the one hand, and public service equity and efficiency, on the other hand. The data show the following. First, there are a limited number of cases in which access to public services and efficiency changed in the same direction – four out of twenty studies (three positive and one negative case). Second, critics have argued that market instruments will lead to decreased access to services and no improvement in efficiency while the proponents of MTMs have claimed improvements in efficiency and no significant change in equality of access. There are a number of cases in the dataset that fall into each of these two categories (20% and 25% respectively), although they are not the largest categories. The picture is more nuanced with a high proportion of studies indicating no significant change in service access and no significant change or no data on efficiency. Overall, this great variation across cases calls for identification of determinants of success or failure and explanation why in certain cases public service equity improved while in others it did not change or it worsened.

Table 9: Mapping the relationship between market-type mechanisms, equity and efficiency

<i>Equity and efficiency</i>	<i>Percent</i>
Deterioration in equity + deterioration in efficiency	5%
Improvement in equity + improvement in efficiency	15%
Deterioration in equity + unchanged or improved efficiency	20%
Deterioration in equity + no improvement in efficiency	20%
Improved or unchanged equity + improvement in efficiency	25%

Note: Percent of the total set of 20 case studies

Trading off equity and efficiency?

Market-type mechanisms were, on the one hand, expected to lead to public service efficiency improvements and, on the other hand, to deteriorations in equal access to public services. The

set of studies reviewed in this paper, however, shows that only one fourth of studies have found evidence consistent with these theoretical expectations. Table 5 shows that only five out of 20 studies indicated that access to services deteriorated following the introduction of market-type mechanisms. In terms of efficiency, six out of 20 cases found some evidence of improved efficiency. This implies that in the majority of situations considered in this paper the results of market-type mechanisms are inconsistent with conventional theories of marketization in the public sector. This applies to both equity and efficiency. Furthermore, though it is typically expected that market-type mechanisms will lead to a trade-off between equity and efficiency, we found little evidence pointing in this direction. Rather than change in opposite directions, the existing data seem to indicate that equity and efficiency have changed in the same way or have not changed at all. There are few studies that provide solid evidence on both equity and efficiency, but the evidence reviewed seems to provide even less support for a trade-off between equity and efficiency.

Factors influencing the success of market-type mechanisms

In what follows we analyze explanatory factors that have influenced the impact of market-type mechanisms on public service equity on the basis of Table 5. These factors can be intrinsic to the market-type mechanism or extrinsic, but nevertheless possibly influential. The first category of explanatory factors concern the inherent attributes of a market-type mechanism – the logic of the mechanism – as applied to the public sector while extrinsic factors concern the context in which a market-type mechanism is designed and implemented and characteristics of policy design and implementation.

Contracting out

The relationship between contracting out public services to private providers and service equity is not clear cut based on the dataset. However, more studies have found positive or unchanged effects on equal access to public services than negative ones (Table 5). Three cases out of eight found some evidence of improvements in service access, four cases indicated that access to services did not change significantly and one study showed that equality of access actually deteriorated. Outsourcing employment services in France resulted in one case in wider access to services for hard-to-place job seekers (Behaghel, Crépon and Gurgand 2009) while another study found no significant change in service access (Divay 2009). In the former study significant higher job placement was found in two programs following contracting out, which was attributed to improved interaction, counselling and support. An important additional factor consisted of financial incentives allocated to one of the two types of private providers (but not to the other) included in the study. These private providers could receive one third of the money for the services delivered after a period of six months. The study also documented improvements in processes in the form of faster registration. Similarly, Divay (2009) argued that job seekers were most satisfied with those private providers that offered personalized counselling rather than ‘technical’ advice. It is important to note, however, that while contracting out facilitated these improvements, it was the novel design of the mechanism focused on personalized support that mattered rather than the sector in which the

service provider was located. This implies that direct provision may well have worked had it benefited from the same service delivery method as private provision. Contracting out, nevertheless had the merit of finding novel ways of placing hard-to-employ job seekers and in this sense was deemed successful overall in these studies.

In the same policy area two German studies found improved service equity in one case and no significant change in another (Kaps and Schütz 2007; Pfeiffer and Winterhanger 2006). In this instance the use of vouchers for employment services was shown to be more effective than public commissioning of third-party employment service providers, but no detailed explanation of differences was documented (Pfeiffer and Winterhanger 2006). Similarly the study found no evidence on efficiency. Kaps and Schütz (2007), in a quasi-experimental evaluation of contracting out employment services in Germany, concluded that both service equity and efficiency remained unchanged, mainly due to increases in operational and transaction costs. The question arises whether these factors were intrinsic to contracting out and whether a different design and implementation could have kept the administrative burden under reasonable control.

The set of studies also include examples of contracting out in other policy areas. A study by the French *Cour de Comptes* showed that contracting out prison services did not lead to a significant change in service equity but, nevertheless, led to improvements in processes (Cour de Comptes 2010). This study, however, identified differences in results concerning professionalism (ethos and attitudes) and prisoner rehabilitation from one institution to another. The administration of some contracted prisons fared better than others in terms of helping prisoners develop coping mechanisms, attitudes and skills which may be useful for society in the eventuality of discharge. The application of different practices in prison administration and overall a growth in crime rates which put more pressure on prison administration were two key contextual factors that influenced the results. These factors appear extrinsic to the market-type mechanism – a different design and application of the technique may have led to different outcomes, and a more favorable context would have likely altered the outcome. Examples in other sectors (e.g. local services, healthcare and social care) and countries (e.g. Italy and Norway) cast further light on the effects of contracting out. A study by the Italian Department of Civil Service, for example, provided no data on efficiency and found unchanged service access (Italian Department of Civil Service 2005). To explain this finding the study argued that closer monitoring and evaluation of contracting out practices would have likely improved effectiveness. In health and social care, Macinati (2006) documented that service equity deteriorated while efficiency remained unchanged. Two main explanatory factors hampered access to public services and service efficiency: lack of strategic planning and high transaction costs. In a Norwegian study, Nylehn (2004) found improvements in the equality of access to public services and cost-savings following the contracting out of social services. The author argued that private institutions provided more personalized care and proved to be more financially responsible compared to their public counterparts.

These cases of contracting out across different policy areas and countries show that factors external to contracting out itself proved instrumental. Few of these studies contest the logic of

contracting out or the practice itself, but rather the design or implementation of the tool and its suitability given a specific external context. Under different circumstances contracting out may have fared better (or worse). Another observation is that there is limited evidence pointing to a tradeoff between equity and efficiency. None of the studies document deteriorated service equity and improved efficiency or vice versa. The pattern that seems to find more support in the data is no change in one of these two desiderata together with improvements or no significant change in the other. Hence, the relationship between contracting out, public service equity and efficiency seems inconsistent with conventional theoretical expectations.

Quasi-market arrangements

The four cases of quasi-market arrangements reviewed have a number of characteristics in common (Table 5). They were all applied in Western European healthcare systems (France, Germany, the Netherlands and the UK), all four are academic studies and all found no significant change in service equity. No data on efficiency was included as efficiency apparently was not part of the analysis. Cookson et al. (2010) tested whether a small dose of competition in the English NHS internal market affected socioeconomic healthcare inequality, finding that access to services was not altered by competition for clients between public hospitals. Strong professional norms amongst medical practitioners, the study found, was key to protecting against “cream skimming” – treating patients that are least costly to treat. A focus on the market logic is thought to stimulate cream skimming and similar behaviors, but a strong code of ethics could act as a guard against these tendencies. Similarly, the German and Dutch case (Götze, Cacace and Rothgang 2009) usefully identified explanatory factors that were found to be related to service equity. Risk adjustment measures introduced in both the German and Dutch healthcare systems ensured financial protection for socio-economically disadvantaged groups. The authors found evidence that risk adjustment was effective in curbing threats to equal access to healthcare posed by competition.

Other market-type mechanisms

Examples of other market-type mechanisms in the dataset include user choice mechanisms and user charges in healthcare in the Czech Republic, Estonia and Hungary (Atun et al. 2006; Krutilová 2010; Nagyistók 2010) liberalization and privatization across the EU (Clifton and Díaz-Fuentes 2010; Clifton et al. 2010) and market-type mechanisms more generally (Audit Commission, 2002; Nemec and Kolisnichenko 2006). Unlike the studies on contracting out and quasi-market arrangements, where evidence on deteriorated public service equity was minimal, 50% of the cases of other market-type mechanisms documented some evidence on decreased equity (Table 7). In terms of policy area, healthcare seems to be most closely related to deteriorated access to public services following the introduction of user charges and user choice. Furthermore, studies in Central and Eastern Europe are more likely to report deteriorations than the studies in Western Europe. This may be due to the socio-economic situation and the novelty and lack of experience in using market-type mechanisms in a transitional context. The introduction of user fees and charges at the point of delivery in healthcare in these countries has virtually universally met with resistance and decreased

patient satisfaction (e.g. Nagyistók 2010). A possible explanation for this observation is that unlike other forms of market-type mechanisms, which concern how a public service is provided and by whom, user charges and user choice are more closely related to access to services. For example, the introduction of user charges (co-payments) in primary healthcare in Czech Republic led to a decrease in the use of some services (Krutilová 2010). A 26% drop was documented in primary home care visits compared to ordinary consultations, and a significant decrease in the use of medication (30.17% in 2008 and 27.65% in 2009). Due to lower price elasticity in inpatient care, however, no significant change was documented in secondary care. The case of introducing user charges in the healthcare system in Hungary shows how controversial user charges can be – one year after introduction they were suspended following a public referendum (Nagyistók 2010). Communication and implementation problems in a context of decreasing political support influenced the perception of the success of these mechanisms. It is debatable whether better communication (given the novelty of the change), effective implementation and political support would have changed the outcome. Even so, it is not possible to simply conclude that a decrease in the use of some services is necessarily a “bad thing” as clinical healthcare outcomes may remain unchanged or potentially improve. More of some service or some medication is not necessarily or always better. To improve the efficiency and sustainability of the healthcare system as a whole, it has been observed that fees for some services may need to be introduced or increased in some countries (e.g. Romanian Ministry of Health, 2010). Out-of-pocket payments have been used to broaden the sources of revenue to finance healthcare. However, regardless of these considerations, from a patient perspective, out-of-pocket payments are likely to be met with resistance and affect patient satisfaction. The extent of out-of-pocket payments needs to be carefully analyzed to offer financial protection for the economically disadvantaged population if equality of access to healthcare is to be maintained (Kutzin, Cashin and Jakab 2010, p. 8).

Liberalization of public utilities was found in one study to have narrowed access for certain services and disadvantaged socio-economic groups (Clifton et al. 2010) while another study looking across the EU found that access did not change significantly (Clifton and Díaz-Fuentes 2010). In the first case, the financial crisis, and less so the reform itself, was seen as a major barrier to equal access to public services. The same argument can be made for other cases in the dataset. According to another study, the less favorable economic condition of countries of the former Soviet Union compared to those in Central Europe was one of the main factors explaining the ineffectiveness of market-type reforms during transition (Nemec and Kolisnichenko 2006). Widespread informal payments and the introduction of user charges, it was argued, directly affected equality of access along with lack of effective patient charters and complaints system (Nemec and Kolisnichenko 2006).

Though 50% of studies in this category of market mechanisms found that public service equity decreased, this does not apply to all cases considered, some of which found evidence of no change or even improved equity. For example, in Estonia giving patients the opportunity to choose a primary healthcare provider of their choice was found to improve both access to services and systemic efficiency compared to the situation before the reform (Atun et al.

2006). A number of success factors were identified including: effective management and leadership, good coordination between policy design and implementation, early investment in training and the creation early on of a critical mass of supporters in the field (Atun et al. 2006). This shows again that under certain favorable conditions concerning policy design and implementation, market-type mechanisms may work. A UK study reviewing experiences with user choice concluded that access to services did not deteriorate after the reform, and that choice could actually improve equality of access if safeguards were designed into choice arrangements. The study also found that choice and voice are not necessarily a top priority for users who are more likely to be concerned about quality standards. As the previous study, this case found the design and implementation of choice schemes can prove essential (Public Administration Select Committee 2005).

Conclusions

In this paper we have considered available evidence on the relationship between the introduction of market-type mechanisms and service equity in the European public sector. We also supplemented this analysis with a consideration of the trade-off between efficiency and equity where the studies that we review allowed. Our assessment of this literature suggests that some market-type mechanisms, such as user charges, liberalization and privatization are more likely to result in reductions in service equity than improvements, but that those reductions are not necessarily occurring against a backdrop of efficiency gains. In fact, in some cases improvements in efficiency and equity have gone hand-in-hand with the adoption of market-type mechanisms. Thus, despite the oft-quoted argument that market-based public sector reforms generate unavoidable trade-offs between efficiency and equity, there is presently a dearth of conclusive evidence supporting this position for European public sector organizations. The findings from our analysis therefore have important theoretical and practical implications.

In theoretical terms, this study cautions against essentializing accounts of the nature of marketization in the public sector. Analysis of the findings from the studies we review casts doubt on simplistic accounts of the costs and benefits of market-type mechanisms, and suggest that there may be nothing inherently harmful to equity in marketization, or indeed inherently beneficial for efficiency. In particular, our thick descriptions of the findings from the studies that we review highlights that the way in which market-type mechanisms are implemented and managed is as likely to influence the prospects of success, as much as anything inherent in the qualities of such reforms. Similarly, the socio-economic and political context in which market-based reforms occur matters. All of which highlights that theorists of public sector marketization should do more to incorporate the managerial, organizational and environmental factors that may be critical to the success of outsourcing, quasi-markets and choice-based mechanisms into their conceptual models and frameworks.

In practical terms, our review indicates that it is possible for governments to realize the aims guiding the introduction of market-type mechanisms. However, this is not something that can be taken for granted, but needs to be considered at every phase of marketization. Further

research is therefore required to identify precisely how and in what circumstances different approaches to the implementation of market-type mechanisms are likely to prove most successful for outsourcing, quasi-markets and choice-based mechanisms. Our review highlights that valuable knowledge about the key enablers and barriers to marketization success can be gleaned from a variety of sources, so researchers and policy-makers should remain open to the use of a wide range of study methods and designs to study the nature of market-type mechanisms in the public sector. A few other empirical investigations have been conducted recently that improve our understanding of the relationship between market-based reform and equal access across Europe. One study found that increasing choice in services of general interest beyond a certain threshold is likely to affect the actual use of choice by vulnerable, less-educated groups (Jilke 2014). This evidence was found for mobile telephony, but not in the case of fixed telephony, which was deemed less competitive and less complex. Exercising voice concerning the quality of public services is also likely to depend on socio-demographic factors (e.g. Jilke and Van de Walle 2013).

In this article we considered a number of studies documenting experiences with market-type mechanisms in Europe drawing on the new public management literature. We did not consider other types of literature in other more specialized fields such as public economics or healthcare financing. An analysis of this material may reveal different results. In reviewing the effects of MTMs on service equity and efficiency, the different methods used in these studies did not allow for a quantification of the size of effects or the analysis of statistical significance. To the extent that the existing literature in other relevant fields allows, the use of classical meta-analytical techniques would be useful for these purposes.

With the issue of public service efficiency still at the top of the policy agenda, governments across Europe will need to ensure that any new market-based reforms are designed in such a way as to deliver cost-effective public services. At the same time, the on-going concern with social exclusion and social cohesion as intractable ‘wicked issues’ within European societies, illustrates that governments continue to have a key role to play in upholding social equity. The design of market-type mechanisms that can successfully deliver value for money whilst enhancing (or at least not damaging) access to public services will therefore become increasingly important in the coming years.

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